FINANCES AND INVESTMENTS: DO IT YOURSELF OR HIRE A PRO? HOW TO MAKE THE RIGHT DECISION

WISERADVISOR

TABLE OF CONTENTS

WHY SHOULD I READ THIS EBOOK?

The internet has made us all capable of investing for ourselves. We have easy access to information, low fees, and advice on sites like Motley Fool.

Yet over 50% of Americans have never created a financial plan and over 60% of DIY investors polled anonymously say they have doubts about either their own investing ability or the time they have to focus on investing.

Who is it for?

This eBook is intended for audiences in all life stages and financial situations- with specific examples for different circumstances.

What does it cover?

This eBook covers the aspects that should be considered when one is deciding between do-it-yourself investing or seeking the help of a financial advisor.

What doesn't it cover?

This eBook is not intended to be a Personal Finance 101. It does not promote any specific advisor nor provides investment advice.

You might also be interested in

How to Select the Right Financial Advisor.

INTRODUCTION

The Internet has helped democratize the tools required to make investments. Not only can you trade stocks for pennies, you also have access to a plethora of research and information. Discounted investing and trading fees can mean more money in the pockets of individual investors.

But the question remains – even with all the tools at your disposal, is it better to be a do-it-yourself (DIY) investor or seek services from a professional financial advisor? The answer will be different depending on an individual's situation, but fundamental issues apply to all. The decision is similar to remodeling your kitchen - regardless of whether you do it yourself or hire a contractor, the kitchen needs to perform the necessary tasks and allow you to cook a meal and clean the dishes.

Successful investing requires careful planning and disciplined execution. There is a lot more to investing than just buying and selling of stocks. There are three key factors that should be taken into account when you're deciding whether to manage your investment portfolio yourself or seek the services of a professional:

Knowledge and Experience: You can certainly learn how to remodel your kitchen but you won't be as efficient or effective as a contractor. In the same way, having the ability to buy stocks on your own doesn't mean you'll be a successful investor. There's a lot to learn and you need both knowledge and experience to properly manage your finances and investments. Knowledge and experience make up the foundation of successful investing as they allow you to truly understand the risks involved in choices you make.

Objectivity: Can you be objective and honest when putting together a financial plan or when the markets are volatile? Can you answer tough questions or set realistic goals? Being forthright is necessary and critical to your financial success.

Time and Cost: It takes time and effort to become a smart DIY investor; are you willing to commit the hours and energy to learn? If you choose to go with a financial advisor, you must understand how you're being charged for these services.

KEY FACTORS TO CONSIDER

KNOWLEDGE AND EXPERTISE

One of the biggest obstacles to investing is acquiring knowledge about all of the financial assets available, like stocks, bonds, mutual funds, retirement programs, and many more. You'll also have to understand how to analyze and adjust for risk, different ways to manage your portfolio, tax implications, and much more.

While the Internet has helped to make investment information more widely available than ever before, the sheer magnitude of this information makes it difficult for people to absorb and understand it all. Not least, everyone has unique needs: some people are looking for information about owning a business; others may have elder care and end-of-life concerns; and some may need knowledge about saving for their children's education. Do you have the time and focus to learn everything you need to know and the experience to know you are making a wise decision?

Whether you decide to invest by yourself or work with a financial advisor, you'll need to understand the basics of finance and conduct your own due diligence.

"As reading and writing were essential to participate in *society in the past, today you have to be financially literate* to participate in society."

- Annamaria Lusardi,
Global Financial Literacy Excellence Center,
George Washington University

Investment Knowledge for the DIY Investor

While DIY investing can be extremely exciting, it can also be terrifying at the same time, as you carry the full responsibility for your decisions. The way to increase the probability that your decisions will bear positive results is with financial knowledge. You have to ask yourself:

- Do you know how to assess your risk and hedge your portfolio?
- Do you know all the types of financial assets and how they work?
- Do you understand how budgeting comes into play?
- Can you grasp the tax implications of investing?
- Can you create an in-depth financial plan?
- Do you understand the concepts of variance and volatility?

"An investment in knowledge pays the best interest."

- Benjamin Franklin

Unless you come from an investment background by education or employment, DIY investing involves a lot of reading. Thanks to the Internet, information about all facets of personal finance can be easily found anywhere, and there are plenty of online communities of DIY investors where you can have discussions about all finance topics at any hour of the day. Some of the tools at your disposal include:

- The Motley Fool
- CNN Money/ Money Magazine
- Kiplinger
- Forbes
- Bloomberg
- WiserAdvisor
- Many More

However, learning how to become an effective investor takes a lot of time and energy. Make sure that you're willing to put forth the effort.

Investment Knowledge and the Financial Advisor

Financial advisors have years, even decades, of experience and knowledge that they use to help you invest wisely. Many have important certifications, such as Certified Financial Planner (CFP) and Chartered Financial Analyst (CFA), that signal dedication to their craft. Many also undergo training as part of their profession, and most of them are members of associations that require continuous learning and improvement. Clients pay fees to benefit from the time their financial advisors have spent learning, rather than undertaking that training and education themselves.

While working with a financial advisor can help take a great deal of the knowledge burden off of your shoulders, you're never entirely free of all responsibility.

While the vast majority of financial advisors are ethical, you always should ask questions and educate yourself about them. As events with Bernie Madoff and other financial fraudsters proved, failing to ask questions of your financial advisors can be costly. When choosing a financial advisor, you need to learn about their plans for your money, research the certifying bodies of which they are members, and read reviews of their services that might exist online.

The good news is that once you have learned enough to become an educated consumer, you can have confidence that your money is in the good hands of a professional financial advisor.

OBJECTIVITY

Many people find it hard to talk about their finances and have difficulty being honest about their financial situations. But candor is critical to many parts of the investing process, especially during financial planning and dealing with the ups and downs of the economy.

Objectivity and the DIY Investor

It is extremely important to be forthright with yourself about your finances, especially during the financial planning process.

Developing a financial plan may be the most important step in the investing process because this plan becomes the bedrock of a sound financial strategy. Honesty is crucial during the creation of this plan and should be applied to the three primary steps of financial planning:

1) *Assessing your current fiscal situation* – You need to take inventory of your current financial situation and understand where your assets reside, how much debt you're in, and where your money is coming from and going. This entails acquiring a lot of financial information and openly and honestly answering some difficult questions about your financial life.

2) *Setting your goals* – Based on your current financial situation, you need to set measurable goals that are within reach. Whether you have to save for your children's education, buy a home, or travel, these goals should be realistic with respect to your current financial situation.

3) *Determining the tactics to achieve your financial goals* – After setting your goals, you should determine the tactics you need to execute that will help you achieve those goals. With so many types of financial options – stocks, bonds, mutual funds, index funds, retirement plans, and more - you have to be honest about your financial skill level and knowledge so the tasks you need to accomplish and the investments you need to make are realistic.

> *"Everybody has a plan until they get punched in the face."*
> -Mike Tyson

It's also very important to be objective when your investments are either performing very well or losing their value. It's easy to think that your investing prowess is the cause when your investments gain value. On the other hand, you may react emotionally when the value of your portfolio dips. Keeping an even keel and an objective mindset will help you get through these financial ups and downs.

Objectivity and the Financial Advisor

With many years of experience helping a large number of clients, financial advisors understand what questions to ask and how to provide objective advice for all situations.

Financial advisors can be a very important part of the financial planning process. They know exactly what to look for when assessing your current financial situation and ask you the tough questions about your financial profile. They understand how to objectively and realistically set goals for you to achieve. Furthermore, they have deep knowledge of the markets and all of the financial vehicles that can help you attain your goals.

A good financial advisor can identify your investment biases and help you avoid making investment decisions based on emotion and gut reaction. They provide objective advice about the markets and what changes you need to make to your investment portfolio.

In addition, a professional advisor can help you through periods of market volatility – times when emotions and panic can lead people to make poor decisions about their finances. Markets move in cycles, and financial advisors help you to see the upturn that follows the downturn. By offering that longer-term advice, financial advisors help you avoid reacting emotionally and making mistakes with your investments.

A good professional financial advisor will...

1. Push you not to procrastinate: Most of us don't ever create a financial plan and/or don't keep it updated. The right advisor will help you stay on top of things.

2. Have experience with your specific needs: The right advisor for you will have other clients like you. You want to benefit from the patterns and situations he or she has faced with others (e.g. stock options, military, taxes).

3. Take the time to educate you: The right advisor should always be responsive to your needs and make the time to answer your questions. You may not have the time to research all issues but your advisor should.

4. Identify risks in your portfolio that you might not see: Am I too heavily invested in the US? Across all my funds, what is my weighting in banks? Is too much cash a risk?

5. Help you communicate: Most spouses have different risk appetites, but may lack the framework to articulate it. A great advisor gets you in sync.

6. Press you to answer tough questions: What happens if you lose your job? How will you take care of parents? These issues are uncomfortable, but you want someone who isn't afraid to ask, and who can do so in a way that makes you feel that they understand your situation.

7. Identify biases: We're all biased, even if we don't know it. US investors tend to prefer US companies. People in the tech industry tend to hold more tech stocks then they should. The best advisors will help you spot risks.

8. Make up for your limitations: None of us know everything. The right advisor would be one who can fill your gaps.

9. Talk you through challenging times: Who can talk you through the impact of losing a job, planning for the care of aging parents, or fluctuations in the stock market?

TIME AND COST

Time and cost are the final factors to consider. Simply put, a portfolio with lower fees will make you more money than the same portfolio with higher fees. This argument is often used to support DIY investing, and it does have an element of truth to it. The key is that the DIY portfolio must perform equally to a professionally managed portfolio.

Costs aren't only measured in dollars and cents. Time, energy and opportunity costs should also be considered when deciding to invest on your own or engage with a financial advisor.

Costs of Becoming an Educated DIY Investor

One of the biggest costs of DIY investing is time. While trading individual stocks might seem straightforward, making good investment decisions that are aligned with your overall financial goals requires careful planning.

> *"As a bull market continues, almost anything you buy goes up. It makes you feel that investing in stocks is a very easy and safe and that you're a financial genius."*
> *-Ron Chernow*

As the quote from Ron Chernow suggests, people can get wrapped up in market movements beyond their control, and think that those market movements are due to their own decisions. Just because you may have had a few good runs doesn't mean your luck is going to last. Educated investors know this and dedicate time and effort to understand how the markets work.

There are communities on the Internet that offer resources and mutual support to DIY investors. There are also courses that you can take to help you become a more educated and capable investor. The bottom line is that becoming a knowledgeable investor takes time and education. Many financial advisors spend years learning their profession, so you can't expect to become an effective investor overnight.

Some people find that they enjoy learning about investments and financial planning. Many others decide that the process, while interesting, is too time-consuming, so they seek a financial advisor.

Costs of Professional Advice

The help of a financial advisor relieves you of the burden of managing your investments and continuously tracking the stock market and economy. It also gives you the confidence that a professional is handling your money. But there are costs to acquiring these services

According to a recent survey, half of 401(k) participants still have no idea what fees they pay...40% of participants still believe they do not pay any fees at all.

There are three different approaches to advisor compensation:

1. You directly pay the advisor. This arrangement is known as a "Fee Only" model, offered mostly by registered investment advisors (RIAs), and could take the following forms:

    a) Fee as a percent of assets under management (AUM)
    b) An hourly rate for financial advice (usually in the range of $200 to $250 per hour)
    c) A one-time fixed fee to develop a financial plan or execute other specific projects
    d) A retainer fee (either monthly, quarterly or annual) to provide financial advice on an ongoing basis

2. A commission on the securities that the advisor sells, usually by a third party such as a mutual funds company or an insurance company. This is called a "commission" model and is most common with broker-dealer advisors.

3. A combination of the two above, whereby the advisor receives compensation in the form of fees from the client and commission from the third party. This is most commonly called a "fee based" model.

Cost vs. Value

In addition to assessing the costs of working with a financial advisor, you should also examine the value you receive for what you pay. There are two primary factors to consider as part of this value analysis.

Investment Performance

It is very easy to accept the idea of paying fees for financial advice if your investments are performing strongly. A 2% fee when your investment portfolio is earning 10% is a steal. That 2% fee when you're earning just 1% is incredibly expensive. Thus, you need to understand the costs to hire a professional and make sure it's worthwhile vis a vis the returns you're getting from your investments.

However, nobody can predict the future and no advisor can guarantee returns. Your advisor should be honest and keep you updated on how your investments are performing and how you are progressing toward your financial goals.

"The stock market is filled with individuals who know the price of everything, but the value of nothing."
-Phillip Fisher

Level of Service

For some, the quality of a financial advisor may be solely based on returns and how often they pick up the right assets at the right time. But many others view their financial advisor as a consultant or coach beyond financial matters. Advisors also try to understand your life situation and help you identify financial goals. No one can predict the future but all of us have a different view of how it should be. A financial advisor can help you work towards achieving your desired financial future.

As a client, your role is to provide information about your current financial status and your goals for the future. This is time well spent regardless of whether or not you DIY invest. You also should undertake research to be an informed consumer and find out about your financial advisor and the associated costs.

THE HYBRID SOLUTION – DIY INVESTING WITH THE HELP OF A FINANCIAL ADVISOR

For some, the choice between DIY investing or working with a financial advisor is an easy one. Those with enough time, energy, knowledge, and confidence may choose to invest on their own. Others that clearly don't have the time or expertise to manage their own investments will gladly pay to give this task to a professional financial advisor.

Some people may want a little bit of both worlds. Some may want to manually manage their retirement accounts and make some online stock trades from time to time but seek guidance in developing a financial plan. Others may be able to set specific financial goals but don't know how to achieve them.

A hybrid solution is a feasible plan that combines some DIY investing with the help of a financial advisor. You'll be responsible for executing some parts of your financial plan, but you will have the objective, knowledgeable assistance of a professional financial advisor to ask tough questions, challenge biases, and keep the lines of communication open through the good times and bad.

CONCLUSIONS

The process of investing is a complex one that involves understanding your level of knowledge, determining the costs you're willing to pay, and answering difficult questions about goals, biases, fears, and comfort levels.

If you are going to practice DIY investing, you owe it to yourself to take the time required to learn about investing and be honest and forthright in creating a financial plan that will be the foundation of your financial strategy.

If you are going to use the services of a financial advisor, you save yourself the burden of acquiring a massive amount of financial knowledge, but you should still make sure you are financially literate. Also, you need to ensure that your financial advisor is reputable, a good fit for what you're looking for, and cost effective.

Whichever path you choose, just remember to that you have to attain some level of financial knowledge and experience, understand the costs associated with investing, and be objective and honest about your financial situation. Then it's up to you to decide what course of action is best.

WISERADVISOR – WHO WE ARE

Your choice of a financial advisor should be the result of sound research. You must locate appropriate candidates, understand their credentials, check references, and conduct interviews in which you ask the right questions.

The first step in choosing a financial advisor is to identify your needs -- most importantly, a professional must be able to provide the specific information and unique advice that you require. You must find a professional that can perform the services you desire given your personal constraints such as location, net worth, portfolio size, etc.

We have sought to ease the initial search challenge by providing WiserAdvisor; a sophisticated matching service that helps you quickly and easily identify financial professionals ideally suited to serve you. This service is free and there is no obligation -- it merely puts you in contact with a select group of financial professionals who can provide the help that you need. You can be confident in the results WiserAdvisor determines because we have an extensive database of financial professionals offering a wide variety of services across the country. We have also done our best to ensure high quality as every professional in our system has met strict qualification standards.

In short, we believe using WiserAdvisor can quickly and efficiently help you identify the advisors best qualified to meet your unique needs and start you on your path to a more secure financial future.

We also publish in depth articles for different topics of interests in financial services; read them & prepare well for securing your financial future.